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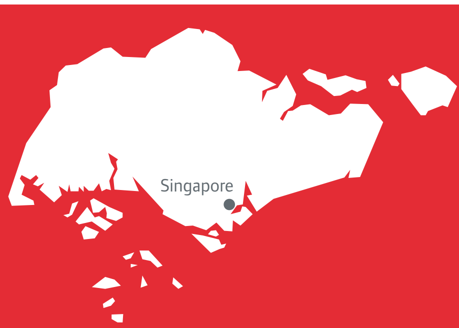
Atradius Country Report

Singapore – December 2010



Overview

General information

Government type: Parliamentary republic
Currency: Singapore dollar (SGD)
Population: 4.6 million

Most important sectors (% of GDP, 2009)

Services: 72 %
Industry/mining 28 %
Agriculture: 0 %

Main import sources (2009, % of total)

USA:	11.8 %
Malaysia:	11.6 %
China:	10.6 %
Japan:	7.6 %
Indonesia:	5.8 %

Main export markets (2009, % of total)

Hong Kong:	11.6 %
Malaysia:	11.5 %
China:	9.8 %
Indonesia:	9.7 %
USA:	6.6 %

Main sources of foreign exchange

Business services, electronics, petroleum products, chemicals, tourism

Key indicators

	2007	2008	2009	2010*	2011**
GDP (US$ million)	161,348	193,241	182,231	218,887	237,001
Real GDP growth (%)	7.7	1.8	-1.3	12.2	4.1
GDP per capita (US$)	35,935	39,955	36,556	42,835	45,229
Inflation p.a. (%)	2.1	6.6	0.6	2.6	2.0
Fiscal balance (% of GDP)	3.4	1.4	-1.0	-0.7	-0.4
Total foreign debt (US$ million)	25,593	25,518	20,298	21,595	22,429
Foreign debt/GDP (%)	16	13	11	10	9
Foreign debt/XGS (%)	6	5	5	4	4
Short-term debt/inter. reserves (%)	6	6	4	4	4
Debt service ratio (%)	1	1	1	1	1
Current account balance (US$ m.)	39,158	36,011	32,626	39,563	41,723
Current account/GDP (%)	24.0	19.0	17.9	18.1	17.6
Nom. exchange rate to US$ (average)	1.6	1.5	1.4	1.3	1.3
International reserves (US$ million)	162,957	173,649	186,005	206,466	227,525
In months of merchandise imports	7.3	6.2	8.7	7.6	7.5

*estimate ** forecast Source: Economist Intelligence Unit (EIU), International Monetary Fund (IMF)

Political situation: Stable

Head of state: President Sellapan Rama Nathan (since September 1999)
Head of government: Prime Minister Lee Hsien Loong (since August 2004)

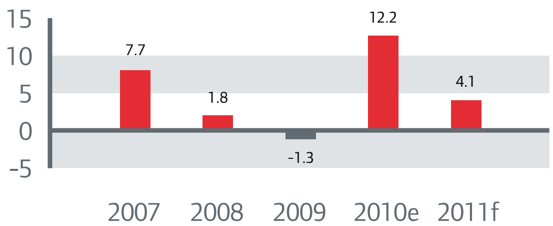
Internal situation

The People's Action Party (PAP) has been in power since Singapore's independence in 1965, and controls 82 of the 84 parliamentary seats in this term. The PAP is business friendly but, compared to Western standards, personal freedoms are limited. The opposition is weak and fragmented and has very few opportunities to present itself in public.

Singapore's population consists of ethnic Chinese (77 %), Malays (14 %), Hindu Tamil Indians (8 %) and 1 % others. Income distribution is relatively equal, and, in contrast to neighbouring Malaysia, racial tensions are negligible. The biggest potential threat to security is the possibility of terrorist attack by Muslim extremists, either indigenous or from abroad.

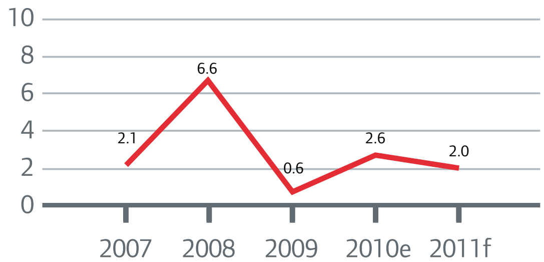
Internal economic situation: Strong recovery

Real GDP growth (%)



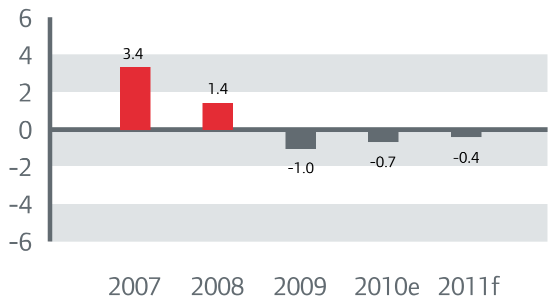
Source: EIU/IMF

Inflation p.a. (%)



Source: EIU/IMF

Fiscal balance (% of GDP)



Source: EIU

General situation

Singapore's income per capita and level of development meet OECD standards. This city state is the main transport and financial service hub for Southeast Asia, but its economy is vulnerable because of its high reliance on demand from its trading partners and the focus on certain specific sectors such as electronics and pharmaceuticals.

As a result of the global crisis, Singapore slipped into its worst recession since independence, due to a dramatic decline in transhipment, tourism and the export of electronics. Both domestic exports and re-exports declined steeply, leading to a GDP contraction of 1.3 % in 2009. However, the recession was markedly less severe than initially feared and year-on-year growth picked up again in Q3 of 2009. The government responded forcefully to the crisis, using public funds to bolster the economy and assist the private sector through a US$ 13.7 billion resilience package contained in the 2009 budget, together with a range of measures aimed at stabilising the financial sector and an easing of monetary policy.

As global demand picked up again and the Asia-Pacific region showed robust growth rates, Singapore's former weakness became its strength again. The recovery in 2010 has been impressive, with year-on-year growth rates of 16.9 % and 19.5 % in Q1 and Q2, according to the Singapore Ministry of Trade and Industry (MTI). This has been due mainly to a strong rebound of merchandise exports (+28.2 % and +29.1 % in Q1 and Q2), financial services and tourism. Manufacturing, which accounts for about a quarter of Singapore's economy, grew 38.1 % in Q1 and 46.1 % in Q2.

In the third quarter, growth 'slowed down' to 10.6 % year-on-year, a 18.7 % contraction on the previous quarter. This had been expected, as the strong but temporary effect of inventory restocking cooled down and some pharmaceutical companies switched to produce a different value mix of active pharmaceutical ingredients. All major economic sectors still expanded, albeit on a slower pace than in the first half of 2010. Manufacturing, wholesale and retail trade, and other services, were the main contributors to GDP growth. Exports increased 20.1% in the third quarter. Unemployment continued to decrease, to 2.1 % (compared to 3.3 % at the end of September 2009). However, this strong economic rebound has fuelled inflation, as the domestic consumer price inflation rose from 0.9 % in Q1 of 2010 to 3.4 % in Q3.

Singapore's banking sector is healthy and adequately supervised. However, some exposure to US subprime mortgages cannot be ruled out. The government has recently liberalised the sector further, allowing more foreign banks to open branches.

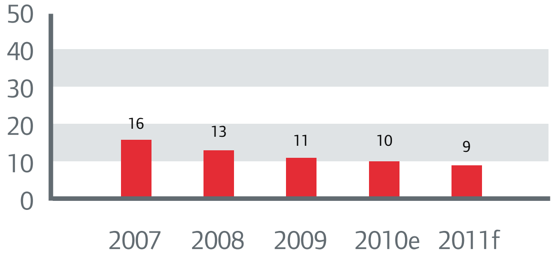
Economic policy

Monetary and fiscal stimuli have contributed to the astounding turnaround in Singapore's economic performance. In December 2009, the Singapore Government extended by a year its financial support for companies, introduced during the global crisis in a bid to keep the economic recovery afloat. This extension of credit support through the 'Special Risk-Sharing Initiative', effective from February 2010 to the end of January 2011, will direct up to 8.4 billion Singapore dollars (US$ 6.0 billion) to spur a recovery in commercial lending and ensure that companies in need of finance can access loans. Some moves have been made to gradually begin scaling back the programmes and reduce economic stimuli.

Despite the stimulus measures, the 2009 and 2010 fiscal deficits are modest: at 1.0 % and 0.7 % of GDP respectively. Singapore's fiscal discipline is excellent, and over the long term the budget is balanced.

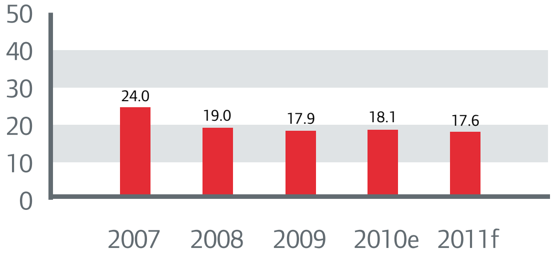
External economic situation: Trade and tourism have quickly recovered

Foreign debt/GDP (%)



Source: EIU/IMF

Current account/GDP (%)



Source: EIU/IMF

Competitive position

With increasing competition from other Asian countries, Singapore has to look for new high value-added sectors and diversify away from the (relatively low-skilled) electronics sector.

Balance of payments

Trade balance:	Structurally very large surpluses
Current account:	Structurally very large surpluses (18 % of GDP in 2010)
Capital account:	Structurally negative, due to large foreign investment by the Singapore Government Investment Corporation and the state-owned investment company Temasek Holdings

Exchange rate

A gradual appreciation in relation to the US$ is expected, while the exchange rates against the currencies of other trading partners will remain stable.

Prospects: Growth will cool down

Economic situation

After an exceptionally high growth rate of more than 12 % this year, GDP growth will moderate to about 4.0-4.5 %, as decreasing global growth will reduce export demand. However, growth in Asia-Pacific region is forecast to remain robust, with strong domestic demand and driving intra-regional trade. The government expects Singapore's trade to grow moderately in the last quarter of 2010, and total trade and non-oil domestic exports to increase by 6-8 % in 2011. External demand for transit and financial services, together with foreign tourism revenues, are expected to keep growing but at a slower pace.

Inflation is expected to rise in the coming months (among other things as a result of labour cost pressures caused by the tight labour market) before moderating in the second half of 2011. The Monetary Authority of Singapore will continue with its policy of a modest and gradual appreciation against the US$.